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Agriculture Inclusive Growth in India: The Role and Trend of Agricultural Finance Institutions

ORIGINAL ARTICLE

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Abstract

An economy's strength largely depends on its agriculture sector. It has a substantial influence on India's economy. India's agriculture accounts for 60% of all direct and indirect exports and one-third of its GDP. It provides 67% of all jobs in India. Strategy and economics are it is strongly reliant on it, as is a great deal of the economy, including industry. Due to the significant financial needs of the industry, only a small number of farmers can afford to operate independently. Therefore, it is imperative to distinguish all agricultural activity and farmers that want assistance. The objective of this article is to assess the growth of agricultural credit in India, to examine the state of agriculture there at the moment, and to examine the numerous Government policies and plans currently in place. The article also discusses innovations in agricultural finance, such as new methodology, techniques, and technology, with a focus on how these innovations support improved agricultural growth and greater financial integration.

Key Words

Agricultural Growth, Financing Institutions, Development, Financial Integration.

Introduction

Finance is one of the riskiest industries since it needs a lot of money at every level to generate revenue. Agriculture finance is strongly favoured by India's banking industry, allowing farmers to fulfil their obligations without hindrance. Agriculture funding was discussed on both the local and macro levels. Macro finance for the agricultural sector includes a range of funding sources. Lending, as well as laws and regulations, monitoring, and management of these institutions, are major factors in agriculture credit facilities. As a result, macro-finance is used to support agriculture on a societal level. Agricultural finance, which explores how credit produces money and liquidity, studies farm debtors. The study of agricultural lending is frequently used to refer to research into the financial intermediaries that lend money to agriculture as well as the financial markets where these intermediaries get their loans. Because of the increase of capital-intensive agricultural equipment, farm financing has become necessary. To improve the productivity of their field, farmers require money. In India, agricultural results are frequently subpar and unreliable. Low and inconsistent results are the norm in

Indian agriculture. To end the vicious cycle of poor savings returns and poor investment returns, external finance will be needed. To prevent negative returns, poor savings, low investment, and unsatisfactory returns, farmers must get external finance. India's colonial past has had a profound impact on rural finance. It is mostly responsible for giving financial aid in order to assist the farming sector. Financing for the agricultural industry has increased since the Middle Ages, albeit it hasn't yet reached its peak. The reasonable and illogical factes of India's agricultural finance may all be fresh in our minds. The creation of nationalised banks in 1969, which gave peasant communities access to agricultural products, had a favourable impact on financial intermediation. It was an essential first step in completing the nationalisation process for India's agricultural financing.

Review of Literature

Niyaz (2021) and Ujwala Kambali,The financial sector is crucial to the success of numerous sectors, including agriculture. Since tiny and distant ranchers cannot save and invest owing to their low income levels, the agriculture sector is becoming more dependent on the banking sector. Given that agriculture is the foundation of national authority, credit in agriculture should be seen as a strategy to increase farmers' overall income and social well-being as well as their ability to produce more food.

The inadequate services provided by existing financial institutions to farmers in Tamil Nadu are the main topic of **Arun & Padmanabhan's (2019)** study. Farmers obtain money from a variety of sources, including loans from banks and other financial institutions, to maintain their farming operations. The state's extensive initiatives to assist farmers are emphasised, along with a number of financial institutions in Tamil Nadu.

Choudhury, S. (2018) discusses the difficulties that the poor in developing countries experience, which hinder their potential and degrade their standard of living. While removing barriers encountered by the most disadvantaged members of society and ensuring fair opportunities for everyone in the economy, development must benefit all facets of the economic system. This study used simulation modelling to extrapolate data from an Indian case study to investigate the role of social sector investment and financial inclusion in enhancing regional livelihoods and inclusive development. It offers policy recommendations for this sector as well.

Dupas, P., et al. (2016) underlined the challenges farmers faced in obtaining agricultural funding. The findings suggest that agriculture loan application procedures could be expedited, farmer interest rates should be lowered, and the basic banks' reluctance to cooperate may be addressed. According to this idea, farmers' worries about the bank's recovery procedure should be diminished by farm owners' ignorance of agricultural financing.

Objectives of the Study

The main objective of the study are as follows:

- Researching the part that financial institutions play in agriculture.
- To investigate the expansion and inclusiveness of agriculture.
- To evaluate the various policies put into effect by the Indian Government.

The present article is based on variety of secondary data sources, such as research papers, journal articles, publications from the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NBARD), as well as details from pertinent websites (NABARD), to carry out the research work.

Farming and the Role of Financial Institutions

The following are financial institutions' duties in agriculture:

- **Agriculture Financial Institutions:** India's agricultural development will benefit from institutional Credit developed. Several entities are in charge of dispersing agricultural loans. The fact that payday lenders are still active in the local loan industry is a major cause for concern. This article examines rural credit lines in India and evaluates the elements that contribute to Indian farm households' increasing use of bank borrowing.

- **Government:** Institutions that are controlled by the Government offer both short and long term loans. The most common form of financing is taccavi loans, which are frequently renewed in times of emergency.The interest rate is modest, and only a small portion of rural funding comes from it.
- **Commercial Banks:** Limited to metropolitan regions, commercial banks primarily supported trade, commerce, and industry. Due to its reliance on downpours, lack of organisation, and thrifty mentality, farming is hazardous, as seen by the commercial banks' lack of interest in rural banking. In 1969, nationalisation of banks compelled them to get involved in agricultural finance, and now they are the main provider of corporate agricultural loans.
- **Microfinancing:** Self-help groups (SHGs) have gained popularity recently as a source of microcredit. Self-help groups (SHGs) are formed by rurally disadvantaged people in an effort to assist themselves overcome their condition. The "Group reservoir" is a collective fund that they all use. Agree to invest your recurring savings in the future. It is agreed that these money, together with any additional cash that the group may obtain through shared management, will be used wisely.
- **Cooperative Credit Societies:** The first Cooperative Credit Societies Act was approved by the Indian Government in 1904 as a part of the nation's cooperative movement. Immediately following independence, the Government of India came to the conclusion that cooperatives were the only alternative strategy to increase agricultural credit and rural growth, in accordance with the recommendations made by the All-India Rural Financing Survey Committee in 1951.
- **Regional Rural Bank:** It serves a unique purpose in the multi-agency strategy for providing financial help to agriculture. They are Government-backed commercial banks with a focus on rural areas that have their headquarters in particular areas. With consideration for the unique challenges of the local area, an attempt has been made to incorporate commercial banking within the larger community banking framework. The creation of the RRBs was prompted by the requirement for a strong Governmental framework to support rural lending.
- **NABARD:** Agricultural financing groups have been established in India with the intention of assisting farmers in need and providing them with required equipment. NABARD was subsequently established in 1982 as a result. In addition, it was established as the premier bank in the nation to support and develop the agricultural sector. The current NABARD headquarters are located in Mumbai, Maharashtra. A committee that assesses institutional financing for regional development and agriculture came up with the idea for the bank, and they supported it. Dr. B. Sivaraman presided over the sessions. The NABARD's founding and subsequent development improved both the agricultural and rural non-farming businesses in rural India.The Reserve Bank of India owns only 0.4 percent of NABARD, which is held by the Indian Government to the tune of 96.4 percent.

Functions of NABARD

NABARD has the following responsibilities:

- All policy, administration, and operations related to agricultural and other rural economic activities are handled by this privileged institution.
- Additionally, it serves as a bank restructuring agency for rural development projects that need investment and production financing from banks.
- It is improving the absorption capacity of India's institutional credit system, including monitoring, the establishment of restoration programmes, the reformation of credit institutions, and employee training.
- All institutions participating in grassroots implementation efforts, such as the Indian Government, state legislatures, the Reserve Bank of India, and other national policy-making organisations have their remote finance operations integrated into this system.

The following are the policies that the Indian Government has put in place:

- **E-NAM:** The National Agriculture Market (e-NAM) offers an online payment interface that is available throughout India in order to establish a single national market for agricultural commodities. It does this by utilising the APMC allocations that are currently in place. Under the auspices of the Indian Ministry of Agriculture and Farmers' Welfare, the Small Farmers Agribusiness Consortium (SFAC) is the main e-NAM implementer. The major objectives of this research are to facilitate real pricing detection, simplify networked marketplace processes, and eliminate ambiguity amongst market participants.
- **National Mission for Sustainable Agriculture (NMSA):** The National Mission for Sustainable Agriculture (NMSA) was established to increase agricultural productivity, particularly in rain-fed areas, by focusing on intensive agriculture, water efficiency, organic fertiliser management, and sustainable agricultural synergies. By implementing a viable growth plan that includes energy efficiency, high efficiency equipment, resource conservation, and integrated farming, NMSA seeks to address a number of concerns, including water productivity, nutritional management, and sustainable livelihoods.
- **Pradhan Mantri Krishi Sinchai Yojana (PMKSY):** The Indian Government has made water management and conservation a primary priority. In order to do this, the Yojana was created to offer an end-to-end service for the development, transmission, administration, field approval procedure, and outreach activities of sources of irrigation penetration and water consumption productivity.
- **Paramparagat Krishi Vikas Yojana (PKVY):** The NDA administration introduced PKVY as a programme to advance sustainable agriculture throughout the nation. As part of the scheme, farmers across broad swaths of the country will be urged to classify themselves into groups and use ecologically friendly agricultural techniques. On the other hand, the Government has committed to fund certification fees and to support organic farming by incorporating a variety of resources into its programmes.
- **Pradhan Mantri Fasal Bima Yojana (PMFBY):** This project unites a wide range of partners and is funded by the Government to provide crop insurance. With this strategy, farmers will receive financial assistance if any of their crops are harmed by pests or natural catastrophes, or if they become ill. Farmers' wages must be guaranteed in order to encourage them to use new and contemporary agricultural techniques while also ensuring a steady flow of cash for the industry.
- **Gramin Bhandaran Yojna:** This programme aims to build systematic processing capacity in rural areas to meet farmers' needs for storage, pasteurised food products, and agricultural implements. It also encourages grading, interoperability, and quality assurance of agricultural production, and it allows deed funds or marketing credit to be used for deeds to prevent grief sales that occur right away after cultivation.

Technologies adopted by Agricultural Sector

Modern agriculture depends more than ever on technological development. Numerous factors, such as rising supplier costs, a lack of workers, and changing customer aspirations for environmental sustainability, are to blame for the rift. Agriculture businesses are progressively discovering how important it is to find solutions. Modern greenhouse technologies, block chain, robotics and automation, precision agriculture, and artificial intelligence have all seen significant advancements in the industry.

- **Indoor Vertical Farming:** By lowering the amount of coldness covered in the supply chain, indoor vertical farming may reduce the ecological effect of agriculture, enhance crop yields, and even eliminate land limits. Using this method, food is produced in a secure environment by being stacked on top of one another.
- **Farm Automation:** To increase agricultural productivity, "smart farming" refers to a collection of technologies that automate the cycle of harvesting or raising animals. A rising number of businesses are working on developing robotic tractors and harvesters. Additionally, drone watering systems are becoming increasingly prevalent.
- **Livestock Farming Technology:** Despite its evident relevance, the traditional cattle sector is frequently disregarded and neglected. Livestock provides the vital renewable natural resources that people need on a daily basis.
- **Modern Greenhouses:** From small-scale fieldwork and decorative resources to much larger enterprises that are closely connected to traditional land-based food production, the greenhouse sector has expanded. Thanks in major part to substantial recent accomplishments in quick development, the sector is currently enjoying growth that has never before been seen.
- **Block Chain:** Using its capacity for monitoring and resistance to interference, block chain technology has the potential to address important issues with the food supply chain, such as food safety, culinary returns, the complexity of the distribution network, and product tracking.

Conclusion

Agriculture funding has maintained farm productivity in India. In light of this a number of flaws have emerged as a result of the rise in scope and volume, endangering the continued growth and efficiency of agricultural finance groups. In terms of earning money and Financial institutions are crucial in investing it. Financial institutions are crucial to the success of any sector. Due to their low income levels, small and distant ranchers are unable to preserve money or make investments; as a result, the banking industry is becoming more and more crucial to the expansion of the agricultural sector. A focus on agriculture policy shouldn't just be on farmers' income and societal well-being. Agriculture is the fundamental cornerstone of national strength in the United States, thus it should also be considered as a way to improve food-producing operations. Development in agriculture and other sectors. It has been demonstrated that remote regions of India interact favourably and lessen the likelihood of natural disasters. If rural finance policies and efforts concentrate a priority on agricultural and rural non-farm sector growth, regional disparities, hardship, and suffering may be lessened. The quantity of institutional finance accessible to farmers must urgently be increased. Based on the present research it can be concluded that in recent years, commercial banks have taken the lead in providing institutional finance to the agricultural sector, altering the traditional distribution of credit.

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